



NEWS TO USE

A newsletter for PERSI Employers

July 2000

- Separation Benefits
- Statutes & rules on website

All about Separation Benefits

A separation benefit is a lump-sum payment of the money an employee contributed to the retirement fund, plus the interest that has accumulated on those contributions. **It does not include employer contributions.** PERSI tries to make taking and/or repaying a separation benefit as easy as possible, however both involve many complicated conditions and tax consequences. **We strongly recommend that members consult with a tax advisor before taking or repaying a separation benefit.**

Leaving Funds In PERSI

If a member leaves PERSI-covered employment, they do **not** have to take a separation benefit. They may choose to leave their funds in PERSI. Contributions will continue to draw interest and retirement credits will be preserved. This is particularly important if a member has 60 months of service or plans to return to public employment at some point and wants to keep existing retirement credits intact. The length of time a member may leave their funds in PERSI is based on the following:

Less Than 5 Months of Service – If a member terminates with less than 5 months of service (or worked less than 20 hours per week, or less than 1/2 contract for teachers) their contributions will be returned automatically.

5 to 59 Months of Service – If a member was eligible for PERSI (worked 5 months or more) but was not vested to a retirement benefit (did not reach 60 months of service), they may leave their funds in PERSI for up to three years. They may wish to leave their funds in if they think they may work for another of PERSI's 630 employers within the next three years. If after three years they have not returned to PERSI employment, they will be notified to withdraw or rollover their funds.

60 Months or More of Service – If a member is vested to a monthly retirement benefit, they may leave their funds in PERSI until they are old enough to retire. We strongly suggest that a vested member speak with a counselor before deciding to take a separation benefit as a pension can be worth a great deal more than simply the member's contributions and interest.

Separation Benefit Eligibility

A member may only take a separation benefit if they have terminated PERSI-covered employment. They must be an inactive member to apply for a separation benefit: they may not work for a PERSI employer, even part time, or be on a leave of absence.

They are not eligible for a separation benefit if they end public employment and return to work for the same employer within 90 days. If they return to work for the same employer within 90 days, they must repay any separation benefit received, plus any interest due. State of Idaho employees who leave one agency and begin work for another agency within 90 days are not eligible for a separation benefit because the State is considered one employer.

Separation Benefit Payment Procedure

To pay a separation benefit, PERSI must have two forms: **RS-109 Notice of Separation** from the employer, AND **RS-108 Request for Separation Benefit** from the member. If rolling over funds to an IRA or another plan, we will also need account information.

If married, the member's spouse must consent, in writing, to the payment. This is because Idaho is a community property state, and the spouse must consent to giving up any part of the PERSI benefit to which he or she may be legally entitled. Spousal consent protects the spouse's right to his or her portion of the benefit. The spouse's signature must be notarized by a Notary Public. All PERSI offices have notaries available at no cost.

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If divorced or divorcing or if there is a court ordered attachment for delinquent child support, the benefit could be affected.

Separation Benefit Cancels PERSI Credits

When a member takes a separation benefit, they cancel all credits toward their retirement. If they have enough credited service to qualify for a monthly benefit at retirement, they also cancel that benefit. If they return to public employment, they will start over in accruing service. There are many employers in Idaho that belong to PERSI, such as school districts, the State of Idaho, state universities, counties, cities, police and fire departments, highway districts, sewer districts, libraries and more. If the member thinks they may work for any of these employers in the future, they may want to consider leaving their funds in PERSI.

Taxes On Separation Benefits

Federal Excise Tax: If a member is not at least age 59 1/2 at the time they take a separation benefit, they may be required to pay a 10% early withdrawal federal excise tax as well as federal, state and any local taxes on the tax-deferred portion of the benefit.

Federal Withholding Tax: PERSI is required to withhold **20%** of the tax-deferred portion of the separation benefit for federal withholding taxes if the payment is made directly to the member. The tax-deferred portion consists of all contributions made after July 1, 1983, and the interest accrued on all member contributions. Contributions to PERSI prior to July 1, 1983 were taxed.

Avoiding Taxes on Separation Benefits

A member may avoid tax penalties if they roll over the tax-deferred portion into an IRA, a qualified trust or a qualified annuity plan. They must roll over the funds within 60 days of receiving each separation benefit payment or have PERSI do it directly. If the member rolls their PERSI contributions and interest into an IRA, they should use a conduit IRA, which contains only funds from qualified plans. They should not commingle their PERSI funds with other funds if they may later return to PERSI employment. This way, if desired, they may avoid taxes or penalties by re-rolling the money back into PERSI to reinstate their months of service.

Repaying A Separation Benefit

If a member returns to public employment, they may reinstate their service credits by repaying the full amount of the separation benefit plus interest. They will be charged interest on the outstanding balance of any part of the separation benefit that remains unpaid. Interest paid will be credited to their account. Credited service will not be reinstated until repayment is complete. They may not begin to pay back a separation benefit while an inactive member; however, if they do begin repayment of a benefit while employed and later terminate, they may continue the repayments after termination. Payments made after termination cannot be tax deferred. If a member had more than one separation benefit, all must be repaid to reinstate service credit. Repayment must be completed before effective retirement date if they want those months of service used in their retirement benefit.

Repayment of a separation benefit to PERSI can be done several ways: a rollover from another qualified plan or conduit IRA, a onetime lump sum taxed (meaning taxes have already been paid on this money) payment, a monthly or a series of taxed payments direct to PERSI, or through tax-deferred payroll deductions.

If tax-deferred payments will be part of the repayment plan, this must be decided before any payment has been made. The decision is irrevocable, according to the IRS, so once a member begins a method of tax-deferred repayment, they cannot change the repayment method or amount of payments.

PERSI statutes and rules available on our website

In the past it has been PERSI's practice to provide updated hardcopy PERSI statutes and rules to all employer units each year. Because these provisions are now readily available on the internet, PERSI will no longer provide hardcopies except as requested on an individual basis.

Accessing PERSI statutes and rules on the internet gives you the most current and updated information available, and with search capabilities, you should find it easier to locate the particular provisions you are looking for. For your convenience, we have included links to PERSI statutes and rules on PERSI's

website. To access them, go to our website at www.persi.state.id.us, then click on General Information.

If you do not have access to the internet and would like a paper copy mailed to you, please contact Rose Marie Sawicki at 800-451-8228 or 334-2451 ext. 268.